

HIGHER EDUCATION

Governor's Compact with Higher Education. In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) which calls for the Governor to provide the UC and CSU with a specified level of General Fund support, as part of his annual budget proposal. In exchange for this “guaranteed” level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. The Governor's 2004-05 Budget provides funding for UC and CSU pursuant to this agreement. Specifically, the *compact* contains the following provisions:

- *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement;
- *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11;
- *General Support.* Beginning in fiscal year 2005-06 and 2006-07, Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from 2007-08 to 2010-11) the Governor will provide increases of 4 percent annually.
- *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,000 full-time equivalent students (FTES) at UC and 8,000 FTES at CSU.
- *Long-Term Funding Needs.* Beginning in 2008-09 through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
- *Student Fees.*

Undergraduate Fees. In an effort to better stabilize fees after the sharp increases of the past couple years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU may increase fees up to 10 percent.

Teacher Credentialing Fees. Fees will increase by no more than 10 percent annually; an 8 percent increase in fees is proposed by both UC and CSU in 2005-06.

Academic Graduate Student Fees. Academic graduate student fees will increase by 10 percent for both 2005-06 and 2006-07; thereafter the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors including the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.

UC Professional School Fees. UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of

attendance; market factors; state labor needs; and financial aid needs. For the 2005-06 academic year, fees will be increased approximately 3 percent. (This small increase is intended to provide some respite after last year's hefty professional school fee hikes.)

Student Fee Revenues. UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase with corresponding General Fund reductions as the state has done in recent "bad" budget years).

- ***Accountability Measures.*** In exchange for the Governor's funding commitment, the UC and CSU agree to the following:

Student Eligibility. Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.

Community College Transfer Students. Both UC and CSU will continue to accept all qualified community college transfer students.

Community College Course Transfer. Both UC and CSU will increase the number of course articulation agreements as they relate to academic "majors" with community colleges. In 2005, UC agrees to achieve major preparation agreements between all 10 UC campuses and all 108 community colleges, while CSU will establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.

Summer Term/Off-Campus Enrollment Levels. By 2010-11, both UC and CSU will expand summer session and off-campus offerings and student enrollments by reaching FTES levels equivalent to 40 percent of regular-term enrollments.

Academic Outreach Efforts. UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least \$12 million and CSU agrees to provide at least \$45 million to continue of the most effective academic outreach programs.

A through G Course Offerings. Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.

Public Service. UC and CSU agree to strengthen student community service programs.

Time to Degree. Both UC and CSU will maintain and improve, where possible, students' persistence rates, graduate rates, and time-to-degree.

Teacher Candidates. Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

OVERARCHING HIGHER EDUCATION ISSUES:

Student Enrollment Growth. Pursuant to the Governor's compact with UC and CSU, he proposes to fund enrollment growth equivalent to 2.5 percent. For UC, this equates to an increase of approximately 5,000 FTEs and \$37.9 million; for CSU, enrollments are proposed to increase by approximately 8,000 FTEs and \$50.8 million. At present, these dollars appear adequate to support the projected enrollment growth for the 2005-06 academic year.

While the California Community Colleges do not have a "compact" with the Governor, he does provide \$136.7 million to fund enrollment growth of 3 percent throughout the community college system. These additional funds will allow colleges statewide to grow by an additional 34,000 FTEs. Unlike prior years, when many primarily urban colleges were overenrolled and growth dollars were used to support unfunded students, the dollars provided in 2005-06 for this purpose will be used to actually grow the system.

General Campus Support. Consistent with the Governor's compact, his 2005-06 budget provides a General Fund, general support increase of 3 percent for both UC and CSU, providing those systems with \$76.1 million and \$71.7 million respectively. Funds will be used to cover cost-of-living-adjustments (COLA), salary, and other price increases.

Under the Governor's proposal, the community colleges also receive a statutory-COLA of 3.93 percent which equates to \$195.5 million.

Student Fees. In 2004-05, the Governor proposed to establish a long-term student fee policy aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal, the Governor instead chose to integrate these student fee "principles" into his compact with UC and CSU.

Pursuant to the compact, UC and CSU are increasing undergraduate student fees by 8 percent in 2005-06; academic graduate students will see fee increases of 10 percent, while UC professional school students will have fee increases of approximately 3 percent. (Actual fee levels will be illustrated in table form later in this chapter.)

In keeping with his compact, the Governor does not propose "recapturing" the increased student fee revenue or offsetting the General Fund appropriations of the UC and CSU to account for the additional funds derived by the fee increases.

Further, the Governor is not proposing a fee increase at the community colleges. Staff notes that community college fees were increased dramatically in the last two state budgets: From \$11 to \$18 per unit in 2003-04 and then from \$18 to \$26 per unit in 2004-05.

6440 University of California

The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20 members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry, and veterinary medicine. The UC consists of nine campuses -- Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz -- which offer undergraduate, graduate, and professional education. The University of California, San Francisco is solely dedicated to the health sciences, and a tenth campus is currently being planned and constructed outside of Merced in the Central Valley. In addition to its instructional facilities, the university operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses as well as operating the Sacramento, San Diego and Orange county medical facilities.

Other 2005-06 Budget Changes. In addition to the compact-related budget changes discussed earlier in this document, the Governor proposes to: (1) eliminate state funding (\$3.8 million) for the Institute for Labor Studies, and (2) reduce by \$17.3 million the amount of funding provided by the Legislature to the UC as part of the 2004-05 budget process. Specifically, the Administration targets the \$17.3 million reduction at either student academic outreach programs or state-funded enrollment growth.

UC Merced. The Governor and the UC continue plans to open the new UC Merced campus to students in the Fall of 2005. To meet this end, the 2005-06 budget proposes to allocate an additional \$14 million for start-up costs associated with the Merced campus, bringing the 2005-06 operational costs to \$24 million. These funds are used primarily to support a core staff of administrators and faculty, develop curriculum, and faculty recruitment, although in the first year costs associated with direct student instruction are included in the \$24 million.

Capital Outlay. Specifically, the capital outlay portion of the budget includes \$14.7 million in UC funds and \$305.2 million in GO bond funds derived from the 2004 Educational Facilities Bond Act to develop working drawings and fund construction and equipment for 24 projects on 9 campuses.

Student Fees. For the fourth time in ten years, student fees are proposed to be increased at the UC. Specifically, the Governor's Budget proposes to increase undergraduate fees by 8 percent, bringing the total mandatory systemwide fees at UC to \$6,769 per year. Fees for graduate students are proposed to increase 10 percent, while out-of-state students will pay an additional 5 percent on top of the other increases. Additional fees, which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV), are also proposed to be increased. In addition to the traditional professional school disciplines noted above, UC and the Administration are also proposing to

assess a professional school surcharge on graduate students in Public Health, Public Policy and International Relations.

Fees at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) averaged \$7,341 in 2004-05 which is \$572 higher than the 2005-06 proposed fee levels for UC resident undergraduates.

University of California Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$4,111	\$11,810	\$4,585	\$12,284
1995-96	4,139	11,838	4,635	12,334
1996-97	4,166	12,560	4,667	13,061
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03	4,017	16,396	5,017	16,393
<i>(fees increased mid-year)</i>				
2003-04	5,530	19,740	6,843	19,332
2004-05	6,312	23,268	7,928	22,867
2005-06	6,769	2,589	8,556	23,517

Note: Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an average of the campus-based fees for the nine campuses.

Students in professional degree programs (i.e., medicine, dentistry, law, veterinary medicine, business) pay a supplemental fee, in addition to the fees noted above, that ranges from \$4,000 for students in public health, public policy or international relations to \$14,276 for students in business and management.

6600 Hastings College of the Law

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year.

Policy development and oversight for the college is established and carried out by a board of directors who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of Law.

2005-06 Budget Changes. While not explicitly included in the Governor's compact with higher education, the Administration opted to afford the provisions of the compact to Hastings College of Law. Specifically, the budget proposes to provide Hastings with a 3 percent General Fund increase (\$244,000) for basic budget support. The effect of this increase will help to mitigate some of the dramatic reductions faced by the college in recent years. While the compact also includes budget adjustments at UC and CSU to accommodate enrollment growth, Hastings enrollment levels are, and have remained, stable for a number of years thereby negating the need to fund enrollment growth.

After large fee increases of approximately 34% in the 2004-05 year, fee levels at Hastings will remain relatively constant in 2005-06 with an increase of less than \$1,000 for residents (from \$20,919 in the current year to \$21,894 in 2005-06). Fees for nonresident students will remain constant at \$33,119 per year.

6610 California State University

The California State University (CSU) system is composed of 23 campuses, including 22 university campuses and the California Maritime Academy. Administered and managed by an independent governing Board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate- and graduate-level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic "general education" breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate- and masters-level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and in limited circumstances, has the ability to jointly offer doctoral-level education with the University of California and private and independent institutions.

Other 2005-06 Budget Changes. In addition to the compact-related budget changes discussed earlier in this document, the Governor proposes to reduce, by \$7 million, the amount of funding provided by the Legislature to the CSU as part of the 2004-05 budget process. Unlike the UC budget, which specifies the programs/services to be reduced, the Administration does not allocate the \$7 million reduction, leaving that decision to the CSU Board of Trustees.

Capital Outlay. Specifically, the capital outlay portion of the budget includes \$101.4 million in university funds; \$163.8 million in lease-revenue bond funds; \$694.8 million in GO bond funds derived from the 2002 and 2004 educational facilities bond acts. Funds will be used to develop working drawings and fund construction and equipment for 44 projects on 22 campuses.

Student Fees. For the fourth time in ten years, student fees are proposed to be increased at the CSU. Specifically, the Governor's Budget proposes to increase undergraduate fees by 8 percent, bringing the total mandatory system wide fees at CSU to \$3,102 per year. Fees for graduate

students are proposed to increase 10 percent while the nonresident surcharge (the amount paid by nonresidents in addition to the system wide fees) is proposed to remain stable.

Fees at the CSU comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged \$5,656 in 2004-05, which was \$2,554 more than the amount to be paid by CSU resident undergraduates in 2005-06.

California State University Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03	1,573	10,033	1,734	10,194
<i>(fees increased mid-year)</i>				
2003-04	2,572	11,032	2,782	11,242
2004-05	2,916	13,086	3,402	13,572
2005-06	3,102	13,272	3,684	13,854

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

6870 California Community Colleges

The California Community Colleges system (CCC) provides a variety of general and vocational education programs at 108 community colleges throughout the state. The CCC offers academic programs that (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education of California's work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering many of the state's economic development programs.

2005-06 Proposed Adjustments

Enrollment Growth. The Governor's 2005-06 budget proposes to provide \$136.7 million to fund a 3 percent (or 34,000 FTE) increase in student enrollment. While statute only calls for enrollment growth funding of 1.89 percent, the statutory index (which is tied to the change in the adult population) has continuously failed to keep pace with actual student enrollment. Unlike prior years when campuses were serving large numbers of unfunded students, it appears that funding provided for enrollment growth in the current year budget indeed helped to accommodate those unfunded students as the number of overenrolled campuses has declined substantially. Total enrollment at community colleges is expected to exceed 1.18 million FTES.

Cost-of-Living-Adjustment. In addition to providing enrollment growth, the Administration proposes an additional \$195.5 million for a 3.93 percent COLA for both general campus apportionments (\$184.5 million) and specified categorical programs (\$11.1 million).

Technical and Vocational Education. The Administration proposes to augment the community colleges by \$20 million, one-time, to increase coordination between the colleges and their K-12 colleagues on industry-driven vocational and technical-career curriculum.

Set-Aside for Partnership for Excellence. The Administration sets aside \$31.4 million to augment funding for the community college Partnership for Excellence Program. As part of the 2004 Budget Act, the Governor vetoed a like-amount and indicated that he would be willing to restore the funding if the community college system developed a district-specific accountability structure. Legislation signed at the end of the 2003-04 legislative session (Chapter 581, Statutes of 2004) requires the Community Colleges Board of Governors to provide recommendations to the Governor and the Legislature on potential district-level performance measures. These recommendations are expected this spring.

Equalization. Contrary to the Community Colleges systemwide budget request, the Governor does not provide any additional funding for equalization, which attempts to remedy the current per student funding disparities between districts.

Student Fees. No change proposed. Fee levels remain at \$26 per unit. At present, approximately 42 percent of community college students are eligible for Board of Governor (BOG) Student Fee Waivers; this represents a slight increase of 4 percent over recent years. The Administration believes that this percent will likely remain constant in 2005-06.

State Teachers Retirement System (STRS). The Governor proposes to eliminate the annual state contribution to the STRS defined-benefit program for a General Fund savings of \$469 million. Of this amount, approximately 7.6 percent represents the share of contributions allocated on behalf of community colleges. Assuming costs for participation in a STRS defined benefit program are shifted to local colleges, the costs would be approximately \$35-40 million. Under the Governor's proposal, local school districts (and presumably local community college districts) would be granted explicit statutory authority to shift these costs to faculty through the

collective bargaining process, or to allow faculty to “opt-out” of the defined benefit plan all together.

Proposition 98 “Split.” The community college share of the Proposition 98 guarantee is expected to be approximately 10.31 percent, a change from the current-year split of 10.17 percent (current-year revised).

6420 California Postsecondary Education Commission

The California Postsecondary Education Commission (CPEC) is a statewide postsecondary education coordinating and planning agency. CPEC serves as the principal fiscal and program advisor to the Governor and Legislature on postsecondary educational policy. CPEC’s responsibilities include conducting analyses and making recommendations related to long-range planning for public postsecondary education, and analyzing both state policy and programs involving the independent and private proprietary educational sectors.

2005-06 Proposed Adjustments

Direct 2005-06 budget proposals related to CPEC are minimal and include mostly “baseline” adjustments related to retirement contributions, employee compensation, and facility leasing costs. The Governor does provide CPEC with an additional \$12,000 as a General Fund “price increase”. The largest proposal related to CPEC occurs outside the budget, in the Governor’s reorganization plan (currently before the Little Hoover Commission). Under the Governor’s reorganization proposal, CPEC would cease to exist and its functions would be shifted to a new Office of Higher Education and Financial Aid where they would be merged with the operations and functions of the California Student Aid Commission.

7980 Student Aid Commission

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants and work study for postsecondary students attending California educational institutions. EdFUND, a nonprofit auxiliary of the SAC administers a variety of federally-backed student loan programs for both California and out-of-state students. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state’s student population, and provides financial aid information to students, parents, and California’s education community.

Background. In 2000, the Legislature passed and the Governor signed into law, SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program, all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth between \$5,250 and

\$9,708 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

Under current law, in order to be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 (“B” average) and must not exceed the family income limit, which in the budget year will be approximately \$69,600 for a family of four or \$80,400 for a family of six. Students with GPAs under 3.0, but higher than a 2.0 (“C” average), are eligible for a Cal Grant “B” award provided their annual family income does not exceed \$36,600 for a family of four. In addition, community college students meeting specified GPA and income requirements, who are transferring to a four-year college or university, prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA, or income requirements) have a “second chance” to receive a Cal Grant and are eligible to compete for a bloc of 22,500 annual awards, provided they are financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

The Student Aid Commission estimates that the total number of Cal Grants awards will reach approximately 260,000 in the 2005-06 fiscal year.

2005-06 Budget Changes. As part of his 2005-06 budget, the Governor proposes to maintain eligibility for, and award levels within, the Cal Grant program, with the following exception:

- **Private College Student Grant Amount.** The Governor proposes to reduce the grant level for students attending private and independent colleges by roughly 10 percent or \$883 annually. This would result in the maximum grant level being decreased from the current \$8,332 to \$7,449. The Administration estimates that this reduction will reap \$7.5 million in General Fund savings.

Other Budget Adjustments. As part of the 2004-05 mid-year (Control Section 4.10) reductions, the Governor proposes to decrease funding for the Cal Grant program by \$44.8 million to account for fluctuations in applicant and award estimates; funding is then increased in 2005-06 by a like-amount thereby shifting funding from one fiscal year to the next.

The Governor proposes several budgetary changes in the Assumption Program of Loans for Education (APLE) including (1) an additional \$6.8 million to fund the increase in loan assumptions coming due, and (2) the authorization of 100 new National Guard APLE awards in order to provide new recruits with an incentive to participate in the National Guard.

Using dollars from EdFUND’s Student Loan Operating Fund (SLOF), the Administration proposes shifting \$35 million in Cal Grant Costs from the General Fund to the SLOF in order to save \$35 million of General Fund. A similar funding “swap” was used to help balance the budget in 2004-05 using \$146.5 million of SLOF dollars to fund the Cal Grant program.

Proposed Reorganization. Like CPEC, the Student Aid Commission is also included in the Governor’s board and commission reorganization proposal, which is currently before the Little Hoover Commission. Under the Governor’s proposal, the Student Aid Commission would cease to exist and its functions would be transferred to the new Office of Higher Education and Financial Aid. According to the Administration, the creation of this office will align higher education policy and planning functions so that policy-makers, policy-implementers, and

students will have more immediate access to a consolidated system of information. Under the Governor's proposal, the Office of Higher Education and Financial Aid would be responsible for reviewing and recommending policy related to student financial aid, administering financial aid programs, and providing financial-aid related outreach to students and families. The Office would be governed by a single executive officer who would serve at the pleasure of the Governor and be confirmed by the Senate.

6445 California Institute for Regenerative Medicine (CIRM)

Established pursuant to Proposition 71 as passed by the voters in 2004, The California Institute for Regenerative Medicine (CIRM) will administer the issuance of \$3 billion in bond proceeds authorized for stem-cell research and assure that the bond funds are used pursuant to the intent of the voters. Proposition 71 created an Independent Citizen's Oversight Committee as CIRM's governing body. The Citizen's Oversight Committee is responsible for the daily operations of the CIRM and appoints members to the advisory groups charged with developing and maintaining accountability standards, reviewing grant bids, and constructing bond-funded research facilities.

\$3 million in the form of a General Fund loan is appropriated via statute (*Health and Safety Code*, Section 125290.70) for the first-year start-up costs of the CIRM. Further, the bond funds used to support stem-cell research are continuously appropriated by statute (*Health and Safety Code*, Section 125291.20). In addition to the funding, the Governor's Budget includes 25 new positions in the current year and 50 positions in 2005-06 to staff the CIRM.